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IN THE UNITED STATES DISTRICT COURT  
IN AND FOR THE NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

VERIGY US, INC., a Delaware Corporation,

Plaintiff,

v.

ROMI MAYDER, an individual; WESLEY  
MAYDER, an individual; SILICON TEST  
SYSTEMS, INC., a California Corporation;  
and SILICON TEST SOLUTIONS, LLC, a  
California Limited Liability Corporation,  
inclusive,

Defendants.

AND RELATED CROSSCLAIMS.

Case No. 5:07-cv-04330-RMW (HRL)

**DEFENDANTS' NOTICE OF MOTION  
AND MOTION FOR SUMMARY  
ADJUDICATION AND FOR  
MODIFICATION OF PRELIMINARY  
INJUNCTION; MEMORANDUM OF  
POINTS AND AUTHORITIES**

Judge: Hon. Ronald M. Whyte  
Date: August 15, 2008  
Time: 9:00 a.m.  
Dept.: 6

Complaint Filed: August 22, 2007  
Trial Date: December 8, 2008 (jury trial)  
(Defendants have elected to reserve their jury  
trial rights under F.R.C.P., Rule 38)

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**NOTICE OF MOTION AND MOTION**

TO PLAINTIFF VERIGY US, INC. AND ITS ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE THAT DEFENDANTS HEREIN SHALL AND HEREBY DO move the Court for (a) summary adjudication as to Verigy US, Inc.'s ("Verigy") Ninth Claim for Relief, under the Lanham Act, (b) summary adjudication as to the public disclosure of certain alleged trade secrets, such that they cannot qualify as trade secrets, and (c) modification of the Preliminary Injunction. This Motion is made on the grounds that (a) under no reasonably plausible set of facts can Verigy prove the "bodily appropriation" required for its Lanham Act claim, (b) Verigy and third parties have now made public, through publications of numerous patents and patent applications, much of Verigy's claimed trade secret information, (c) under current law, where such information is public yet its owner fails to practice the applicable invention, the public is unfairly deprived of the benefits of that public information by an injunction that prohibits its use, and (d) because the Preliminary Injunction provides Verigy with greater relief than it could obtain following trial, it should also be modified in a reasonable and equitable manner that will allow Defendants to have sufficient funds to cover their defense costs in this case; otherwise Plaintiff will have succeeded in putting Defendants out of business even before Defendants would have had a fair opportunity to present their case at trial in this action.

This Motion is supported by the accompanying Memorandum of Points and Authorities, the accompanying Declaration of Romi Mayder, the accompanying Declaration of Dr. Richard Blanchard, the accompanying Declaration of Jack Russo, such other matters that are on file with the Court, and such matters as will be presented at the hearing on this matter.

**MEMORANDUM OF POINTS AND AUTHORITIES****INTRODUCTION**

Plaintiff Verigy's Ninth Claim for Relief is a "reverse passing off" claim under the Lanham Act that cannot be proven as a matter of law. The test for reverse passing off is a rigorous one, and the Ninth Circuit requires that the plaintiff prove "bodily appropriation" by the defendant. Here, it is undisputed that Defendants did not bodily appropriate a product of Verigy's, remove Verigy's name, and slap their own name on it. Indeed, the claim itself is based upon so-called

1 taking of the “Verigy Project,” defined as internal research and development, not as a product.  
 2 Verigy has no product equivalent to Defendant STS’s Flash Enhancer, and there is no showing of  
 3 “bodily appropriation” of any such product.

4 Moreover, Verigy and others have recently published substantial information regarding  
 5 Verigy’s alleged trade secrets in the form of patents and patent applications, such that such  
 6 information can no longer be considered trade secret (assuming it so qualified in the first place).  
 7 Yet Verigy itself has no products that practice those inventions. Under the reasoning of *eBay v*  
 8 *MercExchange*, an injunction prohibiting the use of such public information is improper, and the  
 9 Preliminary Injunction should be modified in light of these publications to allow Defendants to  
 10 bring a product to market in exchange for a reasonable royalty payment being placed in escrow  
 11 pending a final determination of liability in this action. Furthermore, based upon the findings that  
 12 the Court made in the Preliminary Injunction itself and additional evidence, the Preliminary  
 13 Injunction provides Verigy with greater relief than it could obtain following trial, and it is  
 14 effectively being used to deny Defendants the opportunity to fully defend themselves in this case.<sup>1</sup>  
 15 Therefore, the Preliminary Injunction should be modified for this additional reason.

### 16 STATEMENT OF FACTS

17 Defendant Romi Mayder’s experience as an engineer in the semiconductor industry dates  
 18 back to his adolescence, when he was first employed in his father and uncle’s business. With over  
 19 20 years’ experience in the industry, during which time he earned a degree in Electrical  
 20 Engineering from U.C. Berkeley, Mr. Mayder had the opportunity to work at length in the  
 21 automated test equipment field, and to appreciate and understand the challenge of increasing the  
 22 throughput of automated test equipment by increasing testing parallelism. The sole product of Mr.  
 23 Mayder’s current business, defendant Silicon Test Systems, Inc. (“STS”), offers one solution to

24 \_\_\_\_\_  
 25 <sup>1</sup> Of course, it is well-settled in California that no form of non-competition obligation can be  
 26 imposed on any of the Defendants. *See* Cal.Bus.&Prof.Code Section 16600. Yet, that is  
 27 precisely what Plaintiff has aimed to do and has accomplished through litigation that has  
 28 stopped the commercial release of a product that was never subject to and could not be subject  
 to any type of contractual or other non-competition obligation even had that been attempted  
 and paid for by the Plaintiff when Defendant Romi Mayder worked for Verigy. Under  
 applicable state (and federal) law, as further discussed below, such a continued injunction is  
 not in the public interest and is contrary to strong policies under both state and federal law.

1 this throughput challenge. Declaration of Romi Mayder (“R. Mayder Decl.”), submitted herewith,  
2 at ¶¶2-4.

3 In its Complaint against Mr. Mayder and STS, Verigy has asserted that Mr. Mayder and  
4 STS have misappropriated Verigy’s purported trade secrets to develop STS’s Flash Enhancer  
5 product.<sup>2</sup> Complaint at ¶¶23-26, 41-49. This is not so. In fact, Defendants will show that a recent  
6 search of additional publicly available information reveals that most if not all of Verigy’s alleged  
7 trade secrets are, in fact, (i) publicly available or well known in the semiconductor test industry,  
8 (ii) readily ascertainable, or (iii) the type of information that would be specified by the  
9 requirements of a particular customer of the semiconductor test industry. Declaration of Dr.  
10 Richard A. Blanchard [Etc.] (“Dr. Blanchard Decl.”), submitted herewith, at ¶8.

11 On August 24, 2007, this Court entered a Temporary Restraining Order (the “TRO”)  
12 against Defendants, and issued an Order to Show Cause for a Preliminary Injunction. Neither  
13 Romi Mayder nor any of the other Defendants was shown a full, unredacted copy of this TRO; in  
14 fact, crucial portions of the TRO and other referenced materials, including exhibits to the  
15 declarations relied upon by the Court<sup>3</sup> in issuing this TRO and other referenced materials, were  
16 designated “Highly Confidential –Attorneys’ Eyes Only” by Verigy, and, under the terms of the  
17 Protective Order entered on August 29, 2007, Defendants, including Romi Mayder, were not  
18 permitted to view these critical documents. R. Mayder Decl. at ¶¶5-10. Thus, Romi Mayder and

---

19 <sup>2</sup> Plaintiff Verigy has also named as defendants Romi Mayder’s cancelled limited liability  
20 company, Silicon Test Solutions LLC, which he briefly attempted to form with Robert  
21 Pochowski and Defendant Wesley Mayder, his older brother. Verigy has swept in Wesley  
22 Mayder, who has no training or experience in the semiconductor industry, and whose sole  
23 contribution to STS, Inc. has been as a passive, minority shareholder. Indeed, Verigy’s sole  
24 claim against Wesley Mayder is that he and his brother are “in business together.” Complaint  
25 at ¶4. Wesley Mayder is not mentioned anywhere else in Verigy’s Complaint. Defendants  
26 have previously sought several times to convince Verigy of the lack of merit of its claims  
27 against Wesley Mayder; because of Verigy’s intransigence, Defendants have filed a Motion for  
28 Summary Judgment and Motion for Rule 11 Sanctions, scheduled to be heard on August, 8,  
2008.

25 <sup>3</sup> In the TRO, the Court stated that it based its decision to grant plaintiff’s *ex parte* application  
26 for the TRO on “the Complaint, the declarations of Robert Pochowski, Ira Leventhal, Manuel  
27 Cuerzoni, Ken Hanh Duc Lai, Andrew N. Lee, and Melinda M. Morton and the memorandum  
28 of points and authorities submitted in support of the *ex parte* application.” Temporary  
Restraining Order (“TRO”), August 24, 200, docket no. 22 at 5:1-3. The TRO also states that  
“Copies of the complaint and public-redacted version of the TRO papers were sent  
electronically to defendants on August 22, 2007.” *Id.* at 4:19-20 [emphasis added].



1 the other Defendants had injunctive relief entered against them without being able to view fully  
 2 and understand the scope of that injunction because of Verigy's overreaching confidentiality  
 3 assertions, creating a distinct lack of due process.<sup>4</sup>

4 The TRO identified certain information as Verigy's "Trade Secret Property." This  
 5 identification in the TRO, and the terms enjoining Defendants from it use, were however, identified  
 6 by reference to a series of "attached" or referenced documents that were either (a) redacted or (b)  
 7 designated as "Confidential," "Highly Confidential" or both. *See, e.g.* TRO at 5:17-26, which details  
 8 the activities Defendants are restrained and enjoined from undertaking with respect to the "Trade  
 9 Secret Property," but which itself is identified with reference to "Exhibit A" to the TRO. Exhibit  
 10 "A" is itself extensively redacted,<sup>5</sup> and refers to many exhibits submitted along with Verigy's *ex*  
 11 *parte* application, including:

- 12 (s) Exhibits B and C to the Leventhal Declaration submitted in support of Verigy's
- 13 Application for a TRO;
- 14 (t) Exhibits A, B, C and D to the Lai Declaration submitted in support of Verigy's
- 15 Application for a TRO;
- 16 (u) Exhibits A and B to the Lee Declaration submitted in support of Verigy's
- 17 Application for a TRO; and
- 18 (v) Exhibits A, B, C, D, E, and F to the Pochowski Declaration submitted in support of
- 19 Verigy's Application for a TRO.

20 *Id.* at pp. 10:1-7. Each of these Exhibits was redacted from the versions which were served on  
 21 Defendants, and Romi Mayder was never served with the full, unredacted version of the TRO with  
 22 all of the referenced materials, nor was he allowed to view it, until he retained new counsel, Russo  
 23 & Hale LLP, which negotiated with Verigy's counsel for Mr. Mayder's right to view the full,  
 24 unredacted TRO. Declaration of Jack Russo ("Russo Decl."), submitted herewith, at ¶¶3 and 4,  
 25 Exhibits 2 and 3. This did not occur until June 2008, almost ten months after the entry of the  
 26 TRO, and several weeks after the entry of the Order finding Romi Mayder and STS, Inc. in  
 27 contempt of the TRO. *Id.* R. Mayder Decl. at ¶10.

28 <sup>4</sup> Verigy subsequently may have shown Romi Mayder exhibits at this deposition, but (a) this  
 neither cured the harm in marking portions of the TRO and material referenced in it highly  
 confidential and (b) Verigy has failed to show that even now defendants can see *all* of the  
 materials referenced by the TRO.

<sup>5</sup> *Id.* at pp. 9-14.



1 The TRO was originally set to expire on September 7, 2007 at 5:00 p.m. TRO at 7:9-12.  
 2 Then-current counsel for Defendants, however, stipulated to three extensions of the TRO. Stip. re  
 3 Change to the Existing Order and Order, September 6, 2008, docket no. 31 at 2:13-17; Stip. & Order  
 4 re Briefing & Hr'g Schedule for Prelim. Inj., September 12, 2007, docket no. 33 at 1:21-25; Stip. and  
 5 Order re: Briefing & Hr'g Schedule for Prelim. Inj., October 30, 2007, docket no. 86 at 1:25-2:2.

6 With these extensions, and owing to the scheduling constraints of the Court, the Order to  
 7 Show Cause was not heard until mid-January, 2008 and it was February 29, 2008 before the Court  
 8 issued its "limited injunction...to temporarily prohibit the sale, licensing or distribution of STS's  
 9 Flash Enhancer product and any product based on Flash Enhancer [words omitted as  
 10 'Confidential']." Preliminary Injunction Order ("PI Order"), February 29, 2008, docket no. 171, at  
 11 25:25-26:2. This limited Preliminary Injunction against Defendants was to have five-month  
 12 duration. *Id.* at 27:14-16. *As of the time of the Preliminary Injunction's entry, however,*  
 13 *Defendants had already been enjoined from an even greater range of activities for a period of over*  
 14 *six months – from August 24, 2007 until February 29, 2008 – under the TRO.*

15 On December 3, 2007, Verigy filed a Motion for Order to Show Cause re: Contempt  
 16 against Romi Mayder and STS. This Order to Show cause was granted as part of the Court's  
 17 ruling on the Preliminary Injunction, and it specified a particular basis upon which the contempt  
 18 was alleged:

19 Defendants shall show cause why they should not be held in contempt for violating the  
 20 court's temporary restraining order dated August 24, 2007 by continuing to use and  
 disclose Verigy's Trade Secret information *by continuing to work with Intel regarding*  
 21 *STS's Flash Enhancer solution.*

22 *Id.* at 28:8-11 (emphasis added).

23 Without either Romi Mayder or STS ever having been served with a full, unredacted  
 24 version of the TRO they were charged with violating, the motion for contempt was heard, and, on  
 25 May 22, 2008, the Court issued its Order Granting Plaintiff's Motion to find Defendants<sup>6</sup> in

26 <sup>6</sup> Recognizing (at least indirectly) that Defendant Wesley Mayder was never properly part of this  
 27 case, Plaintiff did not "charge" Defendant Wesley Mayder, but subsequent "confusion" in the  
 28 briefing and with prior counsel representing Defendants resulted in Wesley Mayder becoming  
 part of the contempt proceeding—even though he too never received or read a full unredacted  
 copy of the TRO. This problem was recently resolved through stipulations signed by all but  
 only as to Defendant Wesley Mayder. In truth, the same problem applies to all Defendants.

1 Contempt of Court for Violating the TRO. But Verigy failed to carry its burden of proving that  
 2 Romi Mayder or STS had violated the terms of the TRO with respect to the alleged violation for  
 3 which they were ordered to show cause:

4 Although Verigy has presented evidence that defendants met with Intel following the  
 5 issuance of the TRO, and the court could reasonably infer that the interactions described by  
 6 Mr. McMann occurred during November 2007, Verigy has failed to present *clear and*  
 7 *convincing* evidence that this is the case. McMann's deposition testimony as presented does  
 not establish the time frame pertaining to his testimony and thus does not suffice to  
 demonstrate that defendants were marketing Flash Enhancer to Intel after the TRO was  
 issued or that Intel received prototypes of the Flash Enhancer product after August 24, 2007.

8 Order Grant. Pl.'s Mot. to Find Defs. In Contempt of Court for Violating the TRO, May 22, 2008  
 9 ("Order re Contempt") at 11:3-9 (emphasis in original). Instead, the Court found that "defendants  
 10 violated the order by continuing to develop Flash Enhancer during the effective period of TRO...,"  
 11 *id.* at 10:11-12, but the Preliminary Injunction did not prohibit further development of Flash  
 12 Enhancer. *See* PI Order at 28:1-3 ("are hereby restrained and enjoined for a period of five (5)  
 13 months from the date of this order from directly or indirectly marketing, distributing, selling,  
 14 licensing, leasing, transferring or disposing of issued its "limited injunction...to temporarily  
 15 prohibit the sale, licensing or distribution of [words omitted as 'Confidential'].") Therefore, even  
 16 though Verigy failed to carry its burden with regard to Romi Mayder's and STS's "continuing to  
 17 work with Intel regarding STS's Flash Enhancer solution" for which they were ordered to show  
 18 cause in the Preliminary Injunction, *id.* at 28:8-11, Romi Mayder and STS were held in contempt  
 19 for conduct that was not prohibited by the Preliminary Injunction.

20 Nonetheless, the Order re Contempt extended the term of the Preliminary Injunction by an  
 21 additional four months, from five months to a total of nine months. Unless relief is granted, by the  
 22 time this case goes to trial in December, 2008, Romi Mayder and STS will have been enjoined  
 23 from selling the Flash Enhancer product for over fifteen (15) months – from August 24, 2007 until  
 24 November 29, 2008 – despite the Court's finding that a five-month prohibition on sales was  
 25 warranted, and despite the Court's further findings that "the individual items that Verigy claims  
 26 are trade secrets are not themselves trade secrets" and that Romi "Mayder given his skill and  
 27 experience could have eventually developed the Flash Enhancer without the benefit of any Verigy  
 28

trade secret....” PI Order at 14:7-8 and 24:20-21. More importantly, such an injunction is now financially preventing Defendants from being able to fully defend themselves in this action.

### ARGUMENT

#### **I. DEFENDANTS ARE ENTITLED TO SUMMARY ADJUDICATION ON PLAINTIFF’S LANHAM ACT CLAIM.**

Verigy’s Ninth Claim for Relief is for an alleged Lanham Act violation based on Defendants having allegedly taken the “Verigy Project” and marketed and advertised it as their own. Under the law, Verigy’s Ninth Claim for Relief fails.

##### **A. The Standard for Summary Judgment or Adjudication is Well-Settled.**

The standard for when summary judgment or summary adjudication may be granted is well-settled. As the Ninth Circuit has stated:

In order to carry its burden of production, the moving party must either produce evidence negating an essential element of the nonmoving party’s claim or defense or show that the non-moving party does not have enough evidence to carry its ultimate burden of persuasion at trial. In order to carry its ultimate burden of persuasion on the motion, the moving party must persuade the court that there is no genuine issue of material fact.

*Nissan Fire & Marine Ins. Co. Ltd. v. Fritz Cos.*, 210 F.3d 1099, 1102-03 (9<sup>th</sup> Cir. 2000).

Facts are material if they may affect the outcome of the case. *Sonista, Inc. v. David Hsieh*, 2005 U.S. Dist. LEXIS 31397, at \*3 (N.D. Cal. Nov. 21, 2005). Further, when the motion is well supported, the non-moving party must present specific facts that demonstrate that contradiction is possible. *Bursese v. Paypal, Inc.*, 2007 U.S. Dist. LEXIS 12785, at \*9 (N.D. Cal. Feb. 12, 2007). That is, the responding party must set forth specific facts by affidavit or other admissible evidence demonstrating that there is an issue for trial. *Id.* Here, under the facts as admitted by Verigy and the law regarding when a “reverse passing off” claim may lie, Verigy’s Lanham Act claim fails as a matter of law.

##### **B. Verigy’s Lanham Act Claim Requires “Bodily Appropriation,” A Standard That Verigy Cannot Meet as a Matter of Law.**

Verigy’s Ninth Claim for Relief is predicated on the following assertion: “Upon information and belief, defendants have falsely designated themselves as the source of origin of the Verigy Project which is incorporated, in whole or in part, within the STS Device.” *See Russo*

Decl. at Ex. 1, ¶86 (hereinafter, the “Complaint”). According to Verigy, the “Verigy Project” “involved research and development using technology to increase the parallelism of Verigy’s testers.” Complaint at ¶14. That is, Verigy’s Ninth Claim for Relief is premised upon the use of some subset of Verigy information being used within products produced by Defendants. Nowhere has, nor can, Verigy allege that it has created a *product* that Defendants have treated as their own by removing any Verigy designation as the source of origin and replacing it with their own. Under these facts, no Lanham Act claim can stand.

Verigy has based its Lanham Act claim on Section 43(a), dealing with false advertising, 15 U.S.C. §1125(a). Section 43(a) prohibits the use of false designations origin and false representations in the advertising and sale of goods and services. *Cleary v. News Corp.*, 30 F.3d 1255, 1259 (9<sup>th</sup> Cir. 1994). Some examples of false designation of origin are known as “reverse passing off” or “reverse palming off.” Reverse passing off or reverse palming off occurs when a *product* is mislabeled to mask the creator’s contribution.” *Id.* at 1260. (Emphasis added).

The Ninth Circuit has adopted what it has labeled a “rigorous test” for proving reverse passing off under the Lanham Act: “It is not enough that the misattributed material is ‘substantially similar’; instead, there must be ‘bodily appropriation.’” *Id.* at 1261, citing *Shaw v. Lindheim*, 919 F.2d 1353, 1364 (9<sup>th</sup> Cir. 1990). **Rather, under *Shaw* and its progeny, a reverse passing off claim in the Ninth Circuit can stand under only two circumstances: “[r]everse passing off is accomplished ‘expressly’ when the wrongdoer removes the name or trademark on another party’s product and sells *that product* under a name chosen by the wrongdoer.” *Id.* “Implied” reverse passing off occurs when the wrongdoer simply removes or otherwise obliterates the name of the manufacturer or source and sells *the product* in an unbranded state.” *Id.* (emphasis in original).**

In a case directly on point, the United States Supreme Court rejected a Section 43(a) Lanham Act claim for protection of ideas instead of tangible goods. In *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 123 S.Ct. 2041 (2003) the plaintiff was the authorized distributor of a television series on videotape, the copyright on which had expired, such that the works were in the public domain. A rival company, the defendant, produced a video set of the

1 same television series by purchasing, copying and editing the original public domain version of the  
 2 television series. The plaintiff then sued under Section 43(a), claiming that defendant was  
 3 engaged in reverse passing off.

4 Writing for the Court, Justice Scalia found that no Lanham Act claim of “reverse passing  
 5 off” could lie for communicative ideas as opposed to tangible products. The Court found that had  
 6 the defendant actually purchased some of the videotapes sold by plaintiff and merely repackaged  
 7 them as its own, with its own label or trademark, then a “reverse passing off” claim would lie. *Id.*  
 8 at 2046-47. Since the defendant did not do so, however, but allegedly took the same ideas or  
 9 content that plaintiff was using in its own videotapes, the Court addressed the meaning of the word  
 10 “origin” within the Section’s phrase, “false designation of origin.” Specifically, the Court dealt  
 11 with whether “origin” meant the producer of the physical items containing the television series, in  
 12 which case the defendant was the origin, or whether “origin” under Section 43(a) was meant to  
 13 reach the creator of the underlying work that was taken or copied. *Id.* at 2047.

14 The Court concluded that “origin” could not refer to the creators of the underlying ideas or  
 15 expression in a communicative work, but rather “refers to the *producer of the tangible goods* that  
 16 are offered for sale, and not to the author of any idea, concept, or communication embodied in  
 17 those goods.” *Id.* at 2050. The Court held that to find otherwise would be to use the Lanham Act  
 18 to create a species of perpetual patent and copyright protection, an improper result. *Id.*

19 Here, Verigy has brought a Section 43(a) false designation of origin claim, for reverse  
 20 passing off, based on “research and development” work that it alleges “comprise” the “Verigy  
 21 Project.” It has alleged that the incorporation of that research and development into STS’s product  
 22 constitutes “reverse passing off.” But, under the Ninth Circuit’s “bodily appropriation” test, and the  
 23 United States Supreme Court’s ruling in *Dastar*, no claim for a Lanham Act violation can lie on these  
 24 facts and no plausible set of facts can otherwise change this: Defendants did not take some tangible  
 25 product of Verigy’s, because Verigy has no such tangible product incorporating the “Verigy Project”  
 26 ever existed. Rather, as Verigy has admitted, its false advertising claim is based upon the alleged  
 27 taking of ideas or concepts not any implementation, not any product and certainly not any  
 28

mislabeling of any tangible goods. As such, summary adjudication for Defendants on the Ninth Claim for Relief should be granted.

**II. DEFENDANTS ARE ENTITLED TO SUMMARY ADJUDICATION THAT INFORMATION CONTAINED IN PUBLISHED PATENTS OR PATENT APPLICATIONS CANNOT CONSTITUTE TRADE SECRETS.**

Both before and since the Court entered the Preliminary Injunction in this action, a great deal of information related to Verigy's alleged trade secret list has been published in the form of patents or patent applications. The Court should grant summary adjudication that, as a matter of law, material contained in a public patent or patent application cannot constitute trade secrets of Verigy, and that none of the information contained in the patents and patent applications submitted to the Court in connection with this Motion, through the Declaration of Dr. Richard Blanchard and the exhibits thereto, can constitute trade secrets of Verigy.

The law is well-settled that "[a]fter a patent has issued, the information contained within it is ordinarily regarded as public and not subject to protection as a trade secret." *On-Line Technologies, Inc. v. Bodenseewerk Perkin-Elmer GmbH*, 386 F.3d 1133, 1141 (Fed. Cir. 2004); *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150, 155-56 (2d Cir. 1949) (L. Hand); *Tank Tech, Inc. v. Neal*, 2007 U.S. Dist. LEXIS 53066, at \*25 (D. Mo. July 23, 2007). Once information is published in a patent or a patent applications it becomes "readily ascertainable," it can be generally known to competitors, and, therefore, cannot meet the trade secret definition. *Id.*; Cal. Civ. Code §3426.1(d).

"It is well established that the disclosure of a trade secret in a patent places the information comprising the secret into the public domain. [Citation omitted.] Once the information is in the public domain and the element of secrecy is gone, the trade secret is extinguished and 'the patentee's only protection is that afforded under the patent law.' [Citation omitted.]" *Forcier v. Microsoft Corp.*, 123 F.Supp.2d 520, 528 (N.D. Cal. 2000), citing *Stutz Motor Car of America, Inc. v. Reebok Int'l, Ltd.*, 909 F. Supp. 1353, 1359 (C.D.Cal.1995).

Accordingly, Defendants<sup>7</sup> are entitled to summary adjudication that any information published by Verigy or others in patents or patent applications cannot be considered trade secrets

<sup>7</sup> Though Defendant Wesley Mayder expects to be dismissed from this case pursuant to his co-pending Rule 11 and Rule 56 motion, it is clear that he has never had access to any of the



in this action. Defendants are further entitled to summary adjudication that (a) each of the patents or patent applications submitted by declaration on this Motion are in the public domain and (b) to the extent they contain any of Verigy's alleged trade secrets, such information cannot qualify as trade secrets in this action.

### III. THE PRELIMINARY INJUNCTION SHOULD BE MODIFIED IN LIGHT OF *EBAY V. MERCSEXCHANGE*.

#### A. eBay Changed the Rules for the Granting of Injunctive Relief.

In a far reaching decision, the United States Supreme Court changed the process for evaluating a request for permanent injunctive relief upon a finding of patent infringement. *eBay, Inc. v. MercExchange*, 547 U.S. 388, 126 S.Ct. 1837 (2006). Prior to the *eBay* decision, courts almost uniformly granted a request for permanent injunctive relief against an infringing device or method upon a finding of patent infringement, as the Federal Circuit did prior to the appeal to the Supreme Court. *eBay* at 393-94. But the Supreme Court overturned that approach as being too simplistic, and as not adequately applying the traditional four-part test for granting permanent injunctive relief, namely:

- (1) the plaintiff has suffered an irreparable injury;
- (2) the remedies at law are inadequate to compensate for that injury;
- (3) considering the balance of hardships on the parties if injunctive relief were granted or not;
- (4) the public interest would not be disserved by a permanent injunction.

*Id.* at 391.

The Supreme Court rejected an almost automatic grant of permanent injunctive relief, and in doing so rejected a presumption of irreparable harm as automatically flowing from a finding of infringement. The Supreme Court did not, however, directly address whether a presumption of irreparable harm should also be discarded in the preliminary injunction context.

On remand, in applying these four factors, the District Court denied MercExchange's

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alleged trade secrets of Verigy and that, as a matter of law, he has never appropriated and could never have misappropriated any of Verigy's alleged trade secrets. *See* Declaration of Welsy Mayder filed on June 10, 2008 (Docket # 231-21). As such, the entire Complaint and each cause of action as allegedly applicable to him should be dismissed as to him as there are simply no facts which would support any type of claim against him individually.



request for a permanent injunction:<sup>8</sup> First, the District Court found that MercExchange had not established irreparable harm, or that money damages would not adequately compensate it. *MercExchange L.L.C. v. eBay, Inc.*, 500 F.Supp.2d 556, 569 (E.D. Va. 2007). The Court noted in particular the lack of commercialization of the patents by MercExchange. Second, the District Court expressed concern that the patents at issue, or at least one of them, appeared to be a combination invention made up of a number of non-unique parts, and that such patents might well be suspect in light of the Supreme Court's ruling in *KSR Int'l Co. v. Teleflex, Inc.*, \_\_\_ U.S. \_\_\_, 127 S.Ct. 1727 (2007). Third, the District Court found that given MercExchange's pattern of licensing its patents and using them as swords in litigation, rather than productizing them, money damages would afford an adequate remedy. *eBay*, 500 F.Supp.2d at 582-83. In particular, the Court noted the lack of MercExchange's presence in the online auction industry. Fourth, the Court found that the balance of hardships did not weigh in either party's favor, but felt that on the equities, a forced royalty rather than an injunction was more equitable, particularly given MercExchange's history of seeking royalties on its patents. The District Court also found that the public interest tipped slightly in favor of the defendant, finding:

Although the public plainly benefits from a strong patent system protection from an infringer may be vital when a patent held by a small patent holder is infringed upon by a multi-billion dollar corporation such as eBay, the strongest arguments in equity exist when such small patent holder utilizes its patent to benefit the public, that is, either seeks to develop the patent on its own or develop the patent through licensing arrangements.

*Id.* at 587. Lastly, the District Court addressed and rejected cross-claims of unclean hands by both parties as a basis for granting or denying injunctive relief, but emphasized that a court may always consider the equities involved in deciding whether to grant such relief.

**B. eBay Applies Equally in the Preliminary Injunction Context.**

As this Court recently noted, there has been some difference of opinion among the various circuits as to whether the *eBay* decision should be applied in the preliminary injunction context.

<sup>8</sup> Moreover, the jury finding in *eBay* was that eBay willfully infringed the MercExchange's business method patents, yet the District Court determined that such a finding of willfulness was not sufficient to automatically grant injunctive relief.

1 *Hologic, Inc. v. Senorx, Inc.*, 2008 U.S. Dist. LEXIS 36693, at \*43 (N.D. Cal. Apr. 25, 2008). This  
 2 Court concluded based upon its reading and understanding of the *eBay* decision that a presumption  
 3 of irreparable harm could not be applied in the preliminary injunction context as well, and that  
 4 preliminary injunctive relief required a showing of irreparable harm and could not be found  
 5 through an automatic presumption thereof. *Id.* at \*45.

6 Decisions both of this Court and nearly all other federal courts since *eBay* have required  
 7 much more than a showing of speculative irreparable harm in both the permanent injunction and  
 8 preliminary injunction contexts. Indeed, well prior to the *eBay* decision, federal courts have  
 9 warned against the use of injunctive relief as a “club” with which a plaintiff could gain unfair  
 10 negotiating leverage, particularly where, as here, the plaintiff was not practicing its patented  
 11 invention and where a compulsory royalty payment would adequately compensate the plaintiff.  
 12 *Foster v. American Machine & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

13 This Court, too, has followed the approach of ordering a compulsory license and royalty  
 14 payment in lieu of preliminary injunctive relief, particularly where the plaintiff was not practicing  
 15 the invention and where the public could benefit from allowing the invention to be marketed.  
 16 *Hologic*, 2008 U.S. Dist. LEXIS 36693, at \*51. Indeed, where there is an absence of evidence of  
 17 public harm that would be caused by marketing of an invention, the public’s interest in making use  
 18 of the invention should tip in the defendant’s favor. *Id.* at \*57-58.

19 Other courts weighing in since the *eBay* ruling by the Supreme Court have followed an  
 20 approach of not applying a presumption of irreparable harm in the preliminary injunction context,  
 21 or, where, as here, the plaintiff is not practicing the invention and money damages would  
 22 adequately compensate the plaintiff. *See, e.g., Torspo Hockey Intern., Inc. v. Kor Hockey Ltd.*,  
 23 491 F.Supp2d 871, 881 (D. Minn. 2007) (no presumption of irreparable harm in plaintiff’s seeking  
 24 preliminary injunction relating to a *design* patent, and only speculative assertions regarding harm  
 25 to reputation); *MyGym L.L.C. v. Engle*, 2006 U.S. Dist. LEXIS 88375, at \*11 (no presumption of  
 26 irreparable injury at preliminary injunction stage for trademark claim); *Paice L.L.C. v. Toyota*  
 27 *Motor Corp.*, 2006 U.S. Dist. LEXIS 61598, at \* (E.D. Tex. Aug. 16, 2006) (no presumption of  
 28 irreparable harm for patent infringement, particularly where plaintiff can be compensated with

money); *The Northern Cheyenne Tribe v. Norton*, 503 F.3d 836 (9<sup>th</sup> Cir. 2007) (applying the reasoning of *eBay* in refusing to presume irreparable harm in the environmental law context); *Reno Air Racing Ass’n. v. McCord*, 452 F.3d 1126 (9<sup>th</sup> Cir. 2006) (applying the *eBay* approach in a Lanham Act case, relating to a request for permanent injunctive relief); *Christopher Phelps & Assocs. L.L.C. v. Galloway*, 462 F.3d 532, 543 (4<sup>th</sup> Cir. 2007) (applying *eBay* in the copyright context and rejecting the view that upon a finding of copyright infringement an injunction should automatically follow); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* 518 F.Supp.2d 1197, 1208-10 (C.D. Cal. 2007) (*eBay* applies in copyright case, no presumption of irreparable harm).

In *z4 Techs., Inc. v. Microsoft Corp.*, 434 F.Supp.2d 437 (E.D. Tex. 2006), after a jury verdict of willful infringement by Microsoft in connection with its Windows XP operating system, the District Court denied z4’s request for a permanent injunction. In reaching this decision, the Court noted in particular Justice Kennedy’s concurrence in *eBay* in which he suggested that where the patented invention is but a small portion of the infringer’s product, then money damages may well be the proper remedy in contrast to an injunction. *Id.* at 441. The Court further found that z4 would not suffer lost profits (since it was entitled to a royalty from Microsoft for all infringing uses), brand recognition or market share, and that the public could suffer if Microsoft were enjoined from deploying the Windows XP operating system. *See also, Finisar Corp. v. DIRECTV Group, Inc.*, 2006 U.S. Dist. LEXIS 76380, at \*4 (E.D. Tex. July 7, 2006) (District Court refused to grant a permanent injunction where the patentee did not practice the patent, the defendant and its employees would be harmed by an injunction, and the public would be deprived of a valuable service).

The reasoning behind *eBay* and its progeny applies with equal force in the preliminary injunction context, and where trade secrets rather than a patent are at issue. Indeed, since trade secrets, unlike patents and copyrights, do not appear to carry with them a presumption of irreparable harm upon a finding of misappropriation, the application of *eBay* would appear even more appropriate. **This Court itself has previously noted that (a) “Verigy is not currently using the trade secrets [words omitted as ‘Confidential’]” and (b) “[t]he balance of hardships tips less sharply, however, to the extent that the Flash Enhancer is used for NOR testing, as Verigy does not currently sell its products for NOR testing.” PI Order at 24:11 and 25:15-17.**

Therefore, under *eBay*, and to promote the public interest in having access to innovative technology, especially in the NOR market, the Preliminary Injunction should be modified. Defendants have submitted a proposed form of Order that makes clear that equitably Defendants are prepared to escrow fifteen percent (15%) of all product sales<sup>9</sup> pending the outcome of the trial in this action and to continue to do so pending any subsequent appellate proceedings so as to assure that remedies which may be available to Plaintiff—if Plaintiff can prove any of its claims in this case—are available to Plaintiff. Defendants would further agree that this approach would also allow Plaintiff to withdraw any further preliminary injunction bond in this case. This escrow approach is consistent with the Court’s suggestion in the Preliminary Injunction. See P.I. Order at p. 25, fn. 8.

**IV. THE PRELIMINARY INJUNCTION SHOULD BE MODIFIED BECAUSE IT PROVIDES VERIGY WITH GREATER RELIEF THAN VERIGY COULD OBTAIN FOLLOWING TRIAL.**

A preliminary injunction should not grant the moving party greater relief than would be available to it following trial.

The burden on the City “is a heavy one where, as here, granting the preliminary injunction will give [the City] substantially the relief it would obtain after a trial on the merits.” *Dakota Indus., Inc. v. Ever Best Ltd.*, 944 F.2d 438, 440 (8th Cir. 1991) *Indus., Inc. v. Ever Best Ltd.*, 944 F.2d 438, 440 (8th Cir. 1991) (citations omitted); *see also Tanner Motor Livery, Ltd. v. Avis, Inc.*, 316 F.2d 804, 808 (9th Cir. 1963) (“[I]t is not usually proper to grant the moving party the full relief to which he might be entitled if successful at the conclusion of a trial.”) *Am. Med. Response, Inc. v. City of Stockton*, 2005 U.S. Dist. LEXIS 37336 (E.D. Cal. Sept. 16, 2005). Even assuming, *arguendo*, that Verigy were able to prove that its alleged trade secrets were not fully disclosed in filings with the U.S.P.T.O. and not readily ascertainable, the Court has previously made findings concerning the extent of any head-start advantage that Defendants might have obtained.

[I]n light of the fact that there is publicly-available information regarding implementation of fan-out technology and the fact that STS’s products are directed toward different customer requirements, the court finds a five-month injunction to be appropriate. Setting the duration of the injunction at five months rather than eight months also accommodates

<sup>9</sup> This number was not chosen arbitrarily as it represents a very robust (and more than reasonable) royalty for a non-patented hardware device that never has ever been productized by Plaintiff. *See Declaration of Dr. Richard Blanchard at ¶10.*

1 for the fact that STS has concentrated on design and development of the Flash Enhancer  
product....

2 PI Order at 27:6-11. Despite these findings, by the time this Motion is heard, Defendants will have  
3 been enjoined from selling Flash Enhancer for very nearly a year, and by the time this case is tried,  
4 that period will have been extended to over fifteen months, unless the Preliminary Injunction is  
5 modified. Furthermore, Dr. Blanchard has found that even if one were to make assumptions favoring  
6 Verigy's claims, a six-month injunction would be more than sufficient to overcome any alleged  
7 head-start advantage. Dr. Blanchard Decl. at ¶9. It is simply unfair to grant Verigy interim relief that  
8 is between two and three times greater than the full relief it might receive *if* it were to prevail at trial.

9  
10 **V. TO PROMOTE PUBLIC ACCESS TO IMPORTANT**  
11 **TECHNOLOGY AND TO BALANCE ALL OF THE EQUITIES,**  
**THE PRELIMINARY INJUNCTION SHOULD BE MODIFIED.**

12 When Defendants have already been enjoined from selling Flash Enhancer for nearly  
13 eleven months despite the Court's finding that a five-month injunction would be adequate, and  
14 when Defendants were deprived of the ability to understand the full scope and content of the TRO  
15 due to Verigy's designation of crucial exhibits and referenced materials as highly confidential  
16 material, such that Defendants could not read and understand the TRO, the Preliminary Injunction  
17 should be modified, and Defendants should be permitted to market Flash Enhancer in exchange for  
18 escrowing a reasonable compulsory royalty payment for a limited time.

19 First, there is no showing that Verigy is currently selling any product that employs the  
20 alleged trade secrets. Consequently, there is no possibility that Verigy will suffer loss of brand  
21 recognition. Indeed, if the Preliminary Injunction were modified to permit Defendants to sell their  
22 Flash Enhancer product for *non-Verigy* devices, then Verigy could not claim loss at all in  
23 connection with any brand it presumably has.<sup>10</sup>

24 Second, monetary damages are adequate to compensate Verigy in the event that it  
25 ultimately prevails on its claims, and in that regard, Defendants stand ready, willing and able to  
26 put into escrow as much as fifteen percent (15%) of any revenues obtained from sales of the Flash

27 <sup>10</sup> Indeed, as discussed earlier, the notion that Verigy has developed any "brand recognition"  
28 related to internal research and development, namely the "Verigy Project," appears speculative  
at best and logically attenuated.

Enhancer product, such that Verigy would have a fund to turn to if it were to prevail in this action after trial. R. Mayder Decl. at ¶27. Such a fifteen percent (15%) royalty provides more than sufficient security for Verigy, because it is higher than the range of royalty rates that Dr. Blanchard has observed to be customary in the semiconductor industry, even for multiple patents. Dr. Blanchard Decl. at 10.

In my opinion, even if all of the alleged trade secrets that Verigy claims in connection with this case were found to be actual trade secrets and were found to have been infringed by defendants, a fifteen percent (15%) royalty rate would be far in excess of any royalty rate that would be adequate to compensate Verigy for the use of all such trade secrets based upon my experience and my knowledge of standards for royalty rates in the semiconductor industry.

*Id.* at 10. Indeed, as the Court itself found, Verigy is not practicing in the NOR memory field, P.I. Order at 25: 14-17, and certainly is not creating test devices for non-Verigy machines. No irreparable harm can possibly attach to such activities by Defendants, since Verigy is making no use of its alleged trade secrets in the NOR memory field. At a minimum, a narrower injunction that excepted out such fields would properly address the equities existent in this case.

Third, the equities in this matter require modification of the Preliminary Injunction. Although the Court found that Defendants had willfully violated the TRO, Defendants were denied the opportunity to read and understand the TRO, and they were in fact advised by their former counsel that they could continue to act in the manner that resulted in the contempt finding. R. Mayder Decl. at ¶17. Even Defendants' expert, Dr. Blanchard, whose advice was never sought by Defendants' prior counsel, views the meaning of some portions of the TRO to be difficult to understand and in need of further clarification. Dr. Blanchard Decl. at ¶¶5-6. Furthermore, Dr. Blanchard views much of what Verigy is claiming as its trade secrets as information that is (i) publicly available or well known in the semiconductor test industry, (ii) readily ascertainable, or (iii) the type of information that would be specified by the requirements of a particular customer of the semiconductor test industry. Dr. Blanchard Decl. at ¶8. In that one of the consequences of the contempt finding was a four-month extension on the Preliminary Injunction, Defendants have been unfairly enjoined for a period longer than what the Court itself recognized was the likely head-start period. Verigy should not be permitted to obtain through the Preliminary Injunction greater relief than it could obtain at trial.



Fourth, in balancing the hardships in the case, the Court should take note of Verigy's status as a large public company and the fact that it is of considerably greater size and financial resources in comparison with Defendants. Because the economic impact of the Preliminary Injunction falls so heavily on Defendants, and because Verigy is much better capitalized, the Preliminary Injunction should be modified. *See, e.g., International Jensen, Inc. v. Metrosound U.S.A., Inc.*, 4 F.3d 819, 827 (9th Cir. 1993) ("In evaluating the balance of hardships a court must consider the impact granting or denying a motion for a preliminary injunction will have on the respective enterprises. Thus the relative size and strength of each enterprise may be pertinent to this inquiry. *Sardi's Restaurant*, 755 F.2d at 726.")

Fifth, the Court itself noted that the public could benefit from the sale of the Flash Enhancer and that while other vendors might be in the field of parallel testing addressed by that device, no other company is as far along in making the device available. PI Order at 25:10-14. Where, as here, Verigy is not offering third parties any product similar to Flash Enhancer, the balance of hardships should tip *sharply* in favor of Defendants, particularly in the NOR market, and especially because Verigy can be fully compensated by monetary damages if it were to prevail at trial.

Sixth, in addition to *eBay* and its progeny, California's trade secret statute itself recognizes the appropriateness of substituting a reasonable royalty for a categorical injunction. The California statute provides that "[i]f the court determines that it would be unreasonable to prohibit future use, an injunction may be condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited." Cal. Civ. Code §3426.2(b). Given Defendants' willingness to escrow more than a reasonable royalty amount during the pendency of the entire case, even beyond when the Preliminary Injunction is currently set to expire (in November 2008), modifying the Preliminary Injunction will provide adequate protection for Verigy.

Particularly in light of (a) the substantial amount of additional information that has now become public regarding the alleged trade secrets at issue, including public filings with the U.S.P.T.O. by Verigy, (b) Verigy's not selling products using its alleged trade secrets, and (c) the harm to the public in not being able to obtain the benefits of information that is readily ascertainable through public disclosures while the Preliminary Injunction is in place, Defendants



1 respectfully assert that the Preliminary Injunction should be modified as follows:

2 1. Defendants may develop, market, advertise, sell, license, and in all other ways  
3 otherwise commercially exploit the Flash Enhancer product and any enhancements thereto  
4 for all devices and/systems in exchange for escrowing fifteen percent (15%) of the gross  
5 revenues obtained from such sales pending the outcome of this case; and,

6 2. Without limiting the generality of the foregoing, Defendants may develop, market,  
7 advertise, sell, license, and in all other ways otherwise commercially exploit the Flash  
8 Enhancer product and any enhancements thereto for either (a) non-Verigy systems and (b)  
9 any customers producing NOR and/or NAND memory devices and/or systems in exchange  
10 for escrowing fifteen percent (15%) of the gross revenues obtained from such sales pending  
11 the outcome of this case; and,

12 3. Without limiting the generality of any of the foregoing, Defendants may develop  
13 and further test the Flash Enhancer product and any enhancements thereto with and in  
14 cooperation with beta users, provide samples of Flash Enhancer and any enhancements  
15 thereto to beta users, and communicate fully with such beta users concerning the operation,  
16 performance, testing, modification, and future sales or licensing of Flash Enhancer and any  
17 enhancements thereto, and any related matters so long as fifteen percent (15%) of the gross  
18 revenues obtained from such sales is escrowed account pending the outcome of the trial (and  
19 any subsequent appeals) in this matter.

20 The above approaches—and each of them—will provide the proper equitable balance for  
21 assure that the public receives access to important new innovations and that Verigy receives  
22 security for what, under *eBay* and under other applicable federal and state law, can be the  
23 reasonable royalty which Verigy can (and does) seek in this case. Anything narrower than this  
24 puts Defendants in the position of not being able to defend themselves in this action and, in effect,  
25 provides Verigy with the “victory” it seeks to achieve without first having won the actual trial in  
26 this case and without first having convinced this Court that Rule 65 can and should be used to  
27 extend injunction relief even beyond what this Court has already found otherwise—and all before  
28 Defendants were ever given a full and fair opportunity to read and under the Court’s Orders!

CONCLUSION

For the reasons set forth above, the Court should grant summary adjudication (a) to Defendants on Verigy's Ninth Claim for Relief, (b) that, as a matter of law, public patents and patent applications do not contain any trade secret information, and (c) that, as a matter of law, all of the public patents, patent applications, and other published materials attached to the accompanying Declaration of Dr. Richard Blanchard do not contain any trade secret information. Further, the Court should modify the pending Preliminary Injunction to allow the public to benefit from the practice of publicly available information while protecting Verigy with the escrow approach outlined above.<sup>11</sup>

Respectfully submitted,

Dated: July 10, 2008

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<sup>11</sup> The escrow approach has been used in many intellectual property cases and where interim relief is granted and it is clear that this Court has authority to do precisely this. *See, Fogarty v. Fantasy, Inc.* 510 U.S. 517, 114 S. Ct. 1023 (1994).